

NORDSTROM INC  
Form 10-Q  
September 01, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 1, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-15059

NORDSTROM, INC.

(Exact name of registrant as specified in its charter)

Washington  
(State or other jurisdiction of  
incorporation or organization)

91-0515058  
(I.R.S. Employer  
Identification No.)

1617 Sixth Avenue, Seattle, Washington  
(Address of principal executive offices)

98101  
(Zip Code)

206-628-2111  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Common stock outstanding as of August 26, 2015: 188,234,418 shares



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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited).

## NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions except per share amounts)

(Unaudited)

	Quarter Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net sales	\$3,598	\$3,296	\$6,714	\$6,133
Credit card revenues	103	96	202	190
Total revenues	3,701	3,392	6,916	6,323
Cost of sales and related buying and occupancy costs	(2,327	) (2,130	) (4,326	) (3,951
Selling, general and administrative expenses	(1,048	) (931	) (2,019	) (1,776
Credit transaction and other, net	51	—	51	—
Earnings before interest and income taxes	377	331	622	596
Interest expense, net	(32	) (35	) (65	) (70
Earnings before income taxes	345	296	557	526
Income tax expense	(134	) (113	) (218	) (203
Net earnings	\$211	\$183	\$339	\$323
Earnings per share:				
Basic	\$1.11	\$0.97	\$1.78	\$1.70
Diluted	\$1.09	\$0.95	\$1.74	\$1.68
Weighted-average shares outstanding:				
Basic	189.4	189.6	190.0	189.7
Diluted	193.5	192.7	194.2	192.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

## NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Amounts in millions)

(Unaudited)

	Quarter Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net earnings	\$211	\$183	\$339	\$323
Postretirement plan adjustments, net of tax	1	1	3	2
Foreign currency translation adjustment	(10	) —	(5	) 1
Comprehensive net earnings	\$202	\$184	\$337	\$326

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.



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NORDSTROM, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Amounts in millions)  
 (Unaudited)

	August 1, 2015	January 31, 2015	August 2, 2014
Assets			
Current assets:			
Cash and cash equivalents	\$423	\$827	\$772
Accounts receivable held for sale	2,391	—	—
Accounts receivable, net	241	2,306	2,454
Merchandise inventories	2,004	1,733	1,805
Current deferred tax assets, net	256	256	260
Prepaid expenses and other	117	102	96
Total current assets	5,432	5,224	5,387
Land, property and equipment (net of accumulated depreciation of \$4,912, \$4,698 and \$4,587)	3,570	3,340	3,096
Goodwill	447	435	175
Other assets	251	246	248
Total assets	\$9,700	\$9,245	\$8,906
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$1,589	\$1,328	\$1,529
Accrued salaries, wages and related benefits	389	416	358
Other current liabilities	1,145	1,048	944
Current portion of long-term debt	333	8	7
Total current liabilities	3,456	2,800	2,838
Long-term debt, net	2,808	3,123	3,111
Deferred property incentives, net	560	510	498
Other liabilities	385	372	358
Commitments and contingencies (Note 7)			
Shareholders' equity:			
Common stock, no par value: 1,000 shares authorized; 188.2, 190.1 and 188.6 shares issued and outstanding	2,460	2,338	1,958
Retained earnings	97	166	179
Accumulated other comprehensive loss	(66	) (64	) (36
Total shareholders' equity	2,491	2,440	2,101
Total liabilities and shareholders' equity	\$9,700	\$9,245	\$8,906

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.





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NORDSTROM, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

	Common Stock		Retained	Accumulated	
	Shares	Amount	Earnings	Other	Total
				Loss	
Balance at January 31, 2015	190.1	\$2,338	\$166	\$(64	) \$2,440
Net earnings	—	—	339	—	339
Other comprehensive earnings	—	—	—	(2	) (2
Dividends (\$0.74 per share)	—	—	(142	) —	(142
Issuance of common stock					
under stock compensation	1.5	84	—	—	84
plans					
Stock-based compensation	0.1	38	—	—	38
Repurchase of common stock	(3.5	) —	(266	) —	(266
Balance at August 1, 2015	188.2	\$2,460	\$97	\$(66	) \$2,491

	Common Stock		Retained	Accumulated	
	Shares	Amount	Earnings	Other	Total
				Loss	
Balance at February 1, 2014	191.2	\$1,827	\$292	\$(39	) \$2,080
Net earnings	—	—	323	—	323
Other comprehensive earnings	—	—	—	3	3
Dividends (\$0.66 per share)	—	—	(125	) —	(125
Issuance of common stock					
under stock compensation	2.3	101	—	—	101
plans					
Stock-based compensation	—	30	—	—	30
Repurchase of common stock	(4.9	) —	(311	) —	(311
Balance at August 2, 2014	188.6	\$1,958	\$179	\$(36	) \$2,101

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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NORDSTROM, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Amounts in millions)  
 (Unaudited)

	Six Months Ended	
	August 1, 2015	August 2, 2014
<b>Operating Activities</b>		
Net earnings	\$339	\$323
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	277	244
Amortization of deferred property incentives and other, net	(41)	(40)
Deferred income taxes, net	(24)	(43)
Stock-based compensation expense	41	31
Tax benefit from stock-based compensation	13	10
Excess tax benefit from stock-based compensation	(13)	(11)
Bad debt expense	20	22
Credit transaction and other, net	(54)	—
Change in operating assets and liabilities:		
Accounts receivable	(216)	(221)
Merchandise inventories	(280)	(263)
Prepaid expenses and other assets	(19)	(11)
Accounts payable	240	241
Accrued salaries, wages and related benefits	(30)	(35)
Other current liabilities	56	68
Deferred property incentives	97	48
Other liabilities	9	6
Net cash provided by operating activities	415	369
<b>Investing Activities</b>		
Capital expenditures	(521)	(376)
Change in credit card receivables originated at third parties	(64)	(77)
Other, net	4	(9)
Net cash used in investing activities	(581)	(462)
<b>Financing Activities</b>		
Proceeds from long-term borrowings, net of discounts	16	13
Principal payments on long-term borrowings	(4)	(4)
Increase in cash book overdrafts	49	15
Cash dividends paid	(142)	(125)
Payments for repurchase of common stock	(267)	(326)
Proceeds from issuances under stock compensation plans	71	91
Excess tax benefit from stock-based compensation	13	11
Other, net	26	(4)
Net cash used in financing activities	(238)	(329)
Net decrease in cash and cash equivalents	(404)	(422)

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Cash and cash equivalents at beginning of period	827	1,194
Cash and cash equivalents at end of period	\$423	\$772

Supplemental Cash Flow Information

Cash paid during the period for:

Income taxes, net of refunds	\$209	\$219
Interest, net of capitalized interest	70	78

Non-cash activities:

Accounts receivable reclassified from held for investment to held for sale	2,391	—
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The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

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NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the balances of Nordstrom, Inc. and its subsidiaries (the "Company"). All intercompany transactions and balances are eliminated in consolidation. The interim condensed consolidated financial statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2014 Annual Report on Form 10-K ("Annual Report"), and reflect all adjustments of a normal recurring nature that are, in management's opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The condensed consolidated financial statements as of and for the periods ended August 1, 2015 and August 2, 2014 are unaudited. The condensed consolidated balance sheet as of January 31, 2015 has been derived from the audited consolidated financial statements included in our 2014 Annual Report. The interim condensed consolidated financial statements should be read together with the consolidated financial statements and related footnote disclosures contained in our 2014 Annual Report.

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions.

Our business, like that of other retailers, is subject to seasonal fluctuations. Due to our Anniversary Sale in July and the holidays in the fourth quarter, our sales are typically higher in the second and fourth quarters than in the first and third quarters of the fiscal year. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which was subsequently modified in August 2015 by ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The core principle of this ASU is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing, and uncertainty of revenue and cash flows from contracts with customers. This ASU is now effective for us beginning in the first quarter of 2018, rather than the first quarter of 2017. We are currently evaluating the impact the provisions of this ASU would have on our consolidated financial statements.

NOTE 2: CREDIT CARD RECEIVABLE TRANSACTION

On May 25, 2015, we entered into an agreement with TD Bank, N.A. ("TD") to sell substantially all of our U.S. Visa and private label credit card portfolio for an amount equal to the gross value of the outstanding receivables ("par"). In addition, we have entered into a long-term program agreement under which TD will become the exclusive issuer of our U.S. Nordstrom-branded Visa and private label consumer credit card portfolio. We will continue to perform account servicing functions, maintaining the current deep integration between our credit and retail operations.

Our credit card receivables have historically been "held for investment" and recorded at par value less an allowance for credit losses. During the second quarter of 2015, in accordance with generally accepted accounting principles ("GAAP"), we reclassified these receivables as "held for sale" and, as such, the receivables are now recorded at the lower of cost (par) or fair value (see Note 6: Fair Value Measurements). The reclassification of these receivables resulted in the reversal of the allowance for credit losses of \$64 and is recorded in Credit transaction and other, net on the Condensed Consolidated Statements of Earnings.

Upon closing, we expect to receive approximately \$1.8 billion, net of transaction costs and \$325 in debt reduction. Under the program agreement, we will be entitled to receive a substantial portion of revenue generated by the credit card portfolio. The transaction is subject to regulatory approvals and other customary conditions, and is expected to

close by the end of the year.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

## NOTE 3: TRUNK CLUB ACQUISITION

On August 22, 2014, we acquired 100% of the outstanding equity of Trunk Club, a personalized clothing service for men. The purchase price of \$357 was partially offset by \$46 attributable to Trunk Club employee stock awards that are subject to ongoing vesting requirements and are recorded as compensation expense. Of the purchase price consideration, \$35 represents an indemnity holdback that will be settled primarily in Nordstrom stock, most of which we expect to settle in the third quarter of fiscal 2015, upon satisfaction of the representations, warranties and covenants subject to the indemnities. We allocated the net purchase price of \$311 to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated net purchase price recorded as goodwill. On the acquisition date, we recorded current assets of \$21, intangible assets of \$59, goodwill of \$261, and other non-current assets of \$2, offset by net liabilities of \$32.

## NOTE 4: ACCOUNTS RECEIVABLE

We entered into an agreement in May 2015 to sell substantially all of our U.S. Visa and private label credit card portfolio. These receivables are now classified as "held for sale" and recorded at the lower of cost (par) or fair value. Our receivables are held at cost as of August 1, 2015 (see Note 2: Credit Card Receivable Transaction and Note 6: Fair Value Measurements). The components of accounts receivable are as follows:

	August 1, 2015	January 31, 2015	August 2, 2014
Credit card receivables held for investment	\$ 120	\$ 2,284	\$ 2,420
Allowance for credit losses	(1	) (75	) (80
Other accounts receivable <sup>1</sup>	122	97	114
Accounts receivable, net	\$ 241	\$ 2,306	\$ 2,454
Accounts receivable held for sale	\$ 2,391	\$ —	\$ —

<sup>1</sup> Other accounts receivable consist primarily of debit card receivables and third-party receivables.

As our U.S. Visa and private label receivables have been reclassified as "held for sale," the allowance for credit losses on these receivables has been reversed as of August 1, 2015. Activity in the allowance for credit losses is as follows:

	Quarter Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Allowance at beginning of period	\$ 70	\$ 80	\$ 75	\$ 80
Bad debt expense	10	7	20	22
Write-offs	(18	) (19	) (38	) (38
Recoveries	3	12	8	16
Reversal of allowance on receivables held for sale	(64	) —	(64	) —
Allowance at end of period	\$ 1	\$ 80	\$ 1	\$ 80

Under certain circumstances, we may make modifications to payment terms for a customer experiencing financial difficulties in an effort to help the customer avoid a charge-off or bankruptcy and to maximize our recovery of the outstanding balance. These modifications, which meet the accounting definition of troubled debt restructurings ("TDRs"), include reduced or waived fees and finance charges, and/or reduced minimum payments. Receivables classified as TDRs are as follows:

	August 1, 2015	January 31, 2015	August 2, 2014
Credit card receivables classified as TDRs	\$ 30	\$ 34	\$ 38
Percent of total credit card receivables classified as TDRs	1.2	% 1.5	% 1.6



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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

## Credit Quality

The primary indicators of the credit quality of our credit card receivables are aging and delinquency, particularly the levels of account balances delinquent 30 days or more, as these are the accounts most likely to be written off. The following table illustrates the aging and delinquency status of our credit card receivables "held for sale" and "held for investment":

	August 1, 2015		January 31, 2015		August 2, 2014			
	Balance	% of total	Balance	% of total	Balance	% of total		
Current	\$2,377	94.7	% \$2,134	93.4	% \$2,301	95.1	%	
1 – 29 days delinquent	91	3.6	% 103	4.5	% 82	3.4	%	
30 days or more delinquent:								
30 – 59 days delinquent	15	0.6	% 16	0.7	% 15	0.6	%	
60 – 89 days delinquent	10	0.4	% 10	0.5	% 9	0.4	%	
90 days or more delinquent	18	0.7	% 21	0.9	% 13	0.5	%	
Total 30 days or more delinquent	43	1.7	% 47	2.1	% 37	1.5	%	
Total credit card receivables	\$2,511	100.0	% \$2,284	100.0	% \$2,420	100.0	%	
Receivables not accruing finance charges	\$10		\$13		\$11			
Receivables 90 days or more delinquent and still accruing finance charges	12		13		7			

We also evaluate credit quality using FICO credit scores. The following table illustrates the distribution of our credit card receivables "held for sale" and "held for investment" across FICO score ranges:

FICO Score Range <sup>1</sup>	August 1, 2015		January 31, 2015		August 2, 2014			
	Balance	% of total	Balance	% of total	Balance	% of total		
801+	\$497	19.8	% \$369	16.2	% \$481	19.8	%	
660 – 800	1,513	60.3	% 1,435	62.8	% 1,478	61.1	%	
001 – 659	395	15.7	% 392	17.1	% 365	15.1	%	
Other <sup>2</sup>	106	4.2	% 88	3.9	% 96	4.0	%	
Total credit card receivables	\$2,511	100.0	% \$2,284	100.0	% \$2,420	100.0	%	

<sup>1</sup> Credit scores for our credit cardholders are updated at least every 90 days. Amounts listed in the table reflect the most recently obtained credit scores as of the dates indicated.

<sup>2</sup> Other consists of amounts not yet posted to customers' accounts and receivables from customers for whom FICO scores are temporarily unavailable.



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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

## NOTE 5: DEBT AND CREDIT FACILITIES

## Debt

A summary of our long-term debt is as follows:

	August 1, 2015	January 31, 2015	August 2, 2014
<b>Secured</b>			
Series 2011-1 Class A Notes, 2.28%, due October 2016	\$325	\$325	\$325
Mortgage payable, 7.68%, due April 2020	33	36	39
Other	9	7	8
Total secured debt	367	368	372
<b>Unsecured</b>			
Net of unamortized discount:			
Senior notes, 6.25%, due January 2018	649	649	649
Senior notes, 4.75%, due May 2020	499	499	499
Senior notes, 4.00%, due October 2021	499	499	499
Senior debentures, 6.95%, due March 2028	300	300	300
Senior notes, 7.00%, due January 2038	146	146	146
Senior notes, 5.00%, due January 2044	599	598	596
Other	82	72	57
Total unsecured debt	2,774	2,763	2,746
Total long-term debt	3,141	3,131	3,118
Less: current portion	(333)	(8)	(7)
Total due beyond one year	\$2,808	\$3,123	\$3,111

## Credit Facilities

As of August 1, 2015, we had total short-term borrowing capacity available for general corporate purposes of \$800. In April 2015, we terminated our \$800 senior unsecured revolving credit facility that was scheduled to expire in March 2018. We replaced this with a five-year \$800 senior unsecured revolving credit facility ("revolver") that expires in April 2020, with an option to extend for an additional two years. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and other general corporate purposes. As of August 1, 2015, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of less than four times. As of August 1, 2015, we were in compliance with this covenant.

As a condition of the pending credit card portfolio transaction (see Note 2: Credit Card Receivable Transaction), we are required to defease the \$325 secured Series 2011-1 Class A Notes to provide the receivables free and clear. The \$325 has been reclassified from long-term debt to current portion of long-term debt during the second quarter of 2015, as we expect to defease the debt by the end of the year.



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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

## NOTE 6: FAIR VALUE MEASUREMENTS

We disclose our financial assets and liabilities that are measured at fair value in our Condensed Consolidated Balance Sheets by level within the fair value hierarchy as defined by applicable accounting standards:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Other observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that cannot be corroborated by market data that reflect the reporting entity's own assumptions

We did not have any financial assets or liabilities that were measured at fair value on a recurring basis as of August 1, 2015, January 31, 2015 and August 2, 2014.

## Financial Instruments Not Measured at Fair Value

Financial instruments not measured at fair value include cash and cash equivalents, accounts payable and long-term debt. Cash and cash equivalents and accounts payable approximate fair value due to their short-term nature.

We estimate the fair value of our long-term debt using quoted market prices of the same or similar issues and, as such, this is considered a Level 2 fair value measurement. The following table summarizes the carrying value and fair value estimate of our long-term debt, including current maturities:

	August 1, 2015	January 31, 2015	August 2, 2014
Carrying value of long-term debt <sup>1</sup>	\$3,141	\$3,131	\$3,118
Fair value of long-term debt	3,526	3,693	3,551

<sup>1</sup> The carrying value of long-term debt includes the remaining unamortized adjustment from our previous effective fair value hedge.

## Financial Instruments Measured at Fair Value on a Nonrecurring Basis

Our U.S. Visa and private label credit card receivables are "held for sale" and are recorded at the lower of cost (par) or fair value (see Note 2: Credit Card Receivable Transaction). We estimate the fair value of our credit card receivables "held for sale" based on a discounted cash flow model using estimates and assumptions regarding future credit card portfolio performance. This fair value estimate is primarily based on Level 3 inputs in the fair value hierarchy, including the discount rate, payment rate, credit losses, revenues and expenses. Based on comparable market participant capital structures in the banking and credit card industries, we used a 12.0% discount rate. Based on historical and expected portfolio performance, we used a monthly payment rate ranging from 6.4% to 32.6%, an annual credit loss rate ranging from 1.2% to 3.9%, annual revenues ranging from 6.0% to 16.9% of credit card receivables and annual expenses ranging from 2.3% to 10.0% of credit card receivables.

The estimated fair value of our credit card receivables "held for sale" was approximately 3% above par. This premium is solely associated with our credit card receivables "held for sale," does not encompass other terms and elements within our contract with TD and may not be representative of a gain or loss upon consummation of the transaction.

## Non-financial Assets Measured at Fair Value on a Nonrecurring Basis

We measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. There were no material impairment charges for these assets for the six months ended August 1, 2015 and August 2, 2014. We estimate the fair value of goodwill and long-lived tangible and intangible assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements.

## NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

Plans for our Manhattan full-line store ultimately include owning a condominium interest in a mixed-use tower and leasing certain nearby properties. As of August 1, 2015, we had approximately \$125 of fee interest in land, which is expected to convert to the condominium interest once the store is constructed. We have committed to make future installment payments based on the developer meeting pre-established construction and development milestones. In the

unlikely event that this project is not completed, the opening may be delayed and we may potentially be subject to future losses or capital commitments in order to complete construction or to monetize our investment in the land.

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NORDSTROM, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

## NOTE 8: SHAREHOLDERS' EQUITY

In February 2013, our Board of Directors authorized a program to repurchase up to \$800 of our outstanding common stock, through March 1, 2015. There was \$73 of unused capacity upon program expiration. In September 2014, our Board of Directors authorized a program to repurchase up to \$1,000 of our outstanding common stock, through March 1, 2016. During the six months ended August 1, 2015, we repurchased 3.5 shares of our common stock for an aggregate purchase price of \$266 and had \$736 remaining in share repurchase capacity as of August 1, 2015. The actual number, price, manner and timing of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission ("Commission") rules.

In August 2015, subsequent to quarter end, we declared a quarterly dividend of \$0.37 per share, payable in September 2015.

## NOTE 9: STOCK-BASED COMPENSATION

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Stock options	\$10	\$11	\$19	\$21
Acquisition-related stock compensation	4	—	9	1
Restricted stock units	6	4	10	6
Performance share units	—	1	—	—
Other	2	2	3	3
Total stock-based compensation expense, before income tax benefit	22	18	41	31
Income tax benefit	(7	) (7	) (13	) (11
Total stock-based compensation expense, net of income tax benefit	\$15	\$11	\$28	\$20

The following table summarizes our grants:

	Six Months Ended		Six Months Ended	
	August 1, 2015		August 2, 2014	
	Granted	Weighted-average grant-date fair value per unit	Granted	Weighted-average grant-date fair value per unit
Stock options	1.7	\$21	1.9	\$16
Restricted stock units	0.4	78	0.5	62

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(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

## NOTE 10: EARNINGS PER SHARE

The computation of earnings per share is as follows:

	Quarter Ended		Six Months Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Net earnings	\$211	\$183	\$339	\$323
Basic shares	189.4	189.6	190.0	189.7
Dilutive effect of stock options and other	4.1	3.1	4.2	3.0
Diluted shares	193.5	192.7	194.2	192.7
Earnings per basic share	\$1.11	\$0.97	\$1.78	\$1.70
Earnings per diluted share	\$1.09	\$0.95	\$1.74	\$1.68
Anti-dilutive stock options and other	1.7	1.8	1.7	3.4

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

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## NOTE 11: SEGMENT REPORTING

The following tables set forth information for our reportable segments:

	Retail	Corporate/Other	Retail Business <sup>1</sup>	Credit	Total
Quarter Ended August 1, 2015					
Net sales	\$3,775	\$ (177 )	\$3,598	\$—	\$3,598
Credit card revenues	—	—	—	103	103
Earnings (loss) before interest and income taxes	384	(121 )	263	114	377
Interest expense, net	—	(27 )	(27 )	(5 )	(32 )
Earnings (loss) before income taxes	384	(148 )	236	109	